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SIPDIS

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SUBJECT: IMF MISSION VIEWS ON JORDAN DEBT

1. (c) Summary. IMF staff currently in Amman says that Jordan needs a new Fund program that will allow it to "refinance" its Paris Club debt in such a way as to guarantee its graduation from the IMF process. Given its low credit rating and volatile neighborhood, Jordan does not have market-based alternatives. Being by far the largest creditor, Japanese support for such a refinancing is critical. The IMF's points will be spelled out in staff papers to be issued following the May 23 end of its current mission to Amman. End summary.

2. (c) According to Ihsan Mansur, the leader of the IMF mission that is currently in Amman to negotiate a new IMF program, the IMF's timeline remains to have a new 2-year, \$105 million (SDR 85 million) stand-by program approved by the IMF in July, followed immediately thereafter by a Paris Club negotiation. Mansur said the mission should wrap-up on May 22 or 23 with a press conference. The new director of the IMF's Middle East department, George Abed, would fly in to seal the deal on the new program and deal with the press.

3. (c) Mansur said that this agreement would mark Jordan's "graduation" from the IMF. Thus, Mansur stressed to Econ chief, Jordan needs a Paris Club agreement that will allow it to "refinance" its external debt in such a way that it will never need to return to the Paris Club (i.e. the "reprofiling" the Jordanians are seeking). He said that if Jordan does not obtain this refinancing, it will have to borrow from the market at high interest rates. This, plus short market maturities, would leave Jordan financially vulnerable to external events and periodic rollover crises. These could be associated with political uncertainties in Jordan's volatile "neighborhood." All this, Mansur said, increases the likelihood of a future debt or payments crisis absent a refinancing (he cited Turkey and Lebanon as negative examples).

4. (c) Mansur also stressed the importance of Japan's support for such an approach, since it is by far the largest creditor and has the highest interest rates on its debt (relative to market rates). They stressed that even if it is willing to follow such an approach on its own debt, Japan needs the multilateral cover of the Paris Club to take action. A member of the IMF mission with experience in Japan described how it would create domestic political problems for the Japanese to be seen as acting alone.

5. (c) Comment: Mansur said that the IMF's financial points would be spelled out in the staff papers that would be distributed following the visit, but that it was up to creditors to find the most appropriate mechanisms to meet Jordan's needs. Jordan's limited access to market finance was highlighted by Standard and Poor's April 30 decision to remove its "positive" outlook on Jordan's "BB-" credit rating. Recognizing Jordan's success in implementing economic reforms, S and P cited the uncertain regional situation as the main factor in its decision. The rating is now exactly at the same level as it was at the beginning of Jordan's current IMF program, before it joined the WTO and negotiated an FTA with the United States. This suggests that Jordan does not yet have a meaningful, affordable alternative to the Paris Club for dealing with its medium-long term debt exposure.

Gnehm